

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Cedar Township	County Osceola
Fiscal Year End March 31, 2006	Opinion Date June 13, 2006	Date Audit Report Submitted to State July 10, 2006	

We affirm that:

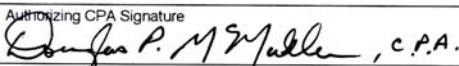
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Douglas P. McMullen, C.P.A.	License Number 1101007898

CEDAR TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

MARCH 31, 2006

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-viii
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance to the Statement of Activities	6
Fiduciary Fund	
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8-16
Required Supplementary Information	
Budgetary Comparison Schedule - Major Governmental Funds	17
Financial Statements of Individual Funds	
Agency Funds	
<u>Current Tax Collection Fund</u>	
Statement of Changes in Assets and Liabilities	18
Other Information	
Statement of 2005 Tax Roll	19
Letter of Comments and Recommendations	20-21
Letter of Reportable Conditions	22-23

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER., C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

June 13, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board
Cedar Township
Osceola County
Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cedar Township, Osceola County, Reed City, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cedar Township, Osceola County, Reed City, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cedar Township, Osceola County, Reed City, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Cedar Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cedar Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$177,423. Of this amount, \$137,760 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$137,760. The entire amount is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Cedar Township. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government and administration, public safety, public works, and other functions. The Township does not have any business-type activities.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$177,423 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount.

Cedar Township
Net Assets as of March 31, 2006

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ 137,959
Non Current Assets	
Capital Assets	55,132
Less: Accumulated Depreciation	<u>15,469</u>
Total Non Current Assets	<u>39,663</u>
Total Assets	\$ <u><u>177,622</u></u>
Liabilities	
Current Liabilities	\$ <u>199</u>
Net Assets	
Invested in Capital Assets	39,663
Restricted for Telecommunications Right-of-Way Maintenance	3,418
Unrestricted	<u>134,342</u>
Total Net Assets	<u>177,423</u>
Total Liabilities and Net Assets	\$ <u><u>177,622</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township is not responsible for any long-term debt as of March 31, 2006. Other liabilities are minimal as of March 31, 2006.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Cedar Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2006

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 225
Capital Grants and Contributions	5,000
General Revenues	
Taxes	36,383
State Grants	31,177
Interest Earnings	1,689
Other	<u>27</u>
Total Revenues	<u>74,501</u>
<u>Expenses</u>	
Legislative	3,637
General Government	34,202
Public Safety	6,005
Public Works	1,000
Community and Economic Development	2,190
Recreational and Cultural	386
Other Functions	<u>6,234</u>
Total Expenses	<u>53,654</u>
Change in Net Assets	20,847
NET ASSETS – Beginning of Year	<u>156,576</u>
NET ASSETS – End of Year	\$ <u><u>177,423</u></u>

Governmental Activities

During the fiscal year ended March 31, 2006, the Township's net assets increased by \$20,847 or 13.3% in the governmental funds. GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

The most significant portion of the revenue for all governmental activities of Cedar Township comes from property taxes. The Township levied 1.7931 mills for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general government expenses that total 63.7% of total expenses. The Township spent \$34,202 in fiscal year 2006 on general government expenses. Other Functions represented the next largest expense at \$6,234, or 11.6% of total expenses. Expenses for salaries represent a large portion of the general government expenses at \$18,727. Depreciation expense added another \$1,282. An additional \$1,000 of depreciation expense was charged to Public Works.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Cedar Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund – The General Fund increased its fund balance by \$18,129 which brings the fund balance to \$137,760. \$134,342 of the General Fund's fund balance is unreserved. All of the General Fund's functions, except for the General Government, ended the year with expenditures below budgeted amounts. The General Government differential was funded by available fund balance. Property taxes amounted to \$32,157. State shared revenues were collected in the amount of \$27,759.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$39,663 net of accumulated depreciation. The Township invested \$5,000 in capital assets for the current fiscal year.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Cedar Township
Capital Assets as of March 31, 2006

		Governmental Activities
		<hr/>
Land	\$	852
Land Improvements		5,500
Buildings		35,780
Infrastructure		8,000
Equipment		<hr/> 5,000
		55,132
Less Accumulated Depreciation		<hr/> 15,469
		<hr/>
Net Capital Assets	\$	<u><u>39,663</u></u>

Major capital asset events during the current fiscal year included:

- Acquisition of a voting machine valued at \$5,000 through a grant program administered by the State of Michigan.

Long-Term Debt. Cedar Township has no obligation for any long-term debt as of March 31, 2006.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means possible further reductions in state-shared revenues. State-shared revenues are expected to remain the same in the 2006-07 fiscal year.

This factor was considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Cedar Township at 9115 170th Avenue, Reed City, Michigan 49677.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 124,507
Receivables	
Taxes	4,754
External Party (Fiduciary Funds)	2,011
Due from Other Governments	<u>6,687</u>
Total Current Assets	<u>137,959</u>
<u>CAPITAL ASSETS</u>	
Land	852
Land Improvements	5,500
Buildings	35,780
Infrastructure	8,000
Equipment	<u>5,000</u>
	55,132
Less Accumulated Depreciation	<u>15,469</u>
Net Capital Assets	<u>39,663</u>
 TOTAL ASSETS	 <u>177,622</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	<u>199</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets	39,663
Restricted for Telecommunications Right-of-Way Maintenance	3,418
Unrestricted	<u>134,342</u>
 TOTAL NET ASSETS	 <u>\$ 177,423</u>

The accompanying notes are an integral part of the financial statements.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL
					GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 3,637	\$ 0	\$ 0	\$ 0	\$ (3,637)
General Government	34,202	0	0	5,000	(29,202)
Public Safety	6,005	0	0	0	(6,005)
Public Works	1,000	0	0	0	(1,000)
Community and Economic Development	2,190	225	0	0	(1,965)
Recreation and Cultural	386	0	0	0	(386)
Other Functions	6,234	0	0	0	(6,234)
Total Governmental Activities	<u>\$ 53,654</u>	<u>\$ 225</u>	<u>\$ 0</u>	<u>\$ 5,000</u>	<u>(48,429)</u>
<u>GENERAL REVENUES</u>					
Taxes					36,383
State Grants					31,177
Interest Earnings					1,689
Other					27
Total General Revenues					<u>69,276</u>
Change in Net Assets					20,847
<u>NET ASSETS</u> - Beginning of Year					<u>156,576</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 177,423</u>

The accompanying notes are an integral part of the financial statements.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2006

	<u>GENERAL FUND</u>
 <u>ASSETS</u>	
Cash	\$ 124,507
Taxes Receivable	4,754
Due from Other Governments	6,687
Due from Other Funds	2,011
Total Assets	<u>\$ 137,959</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	<u>\$ 199</u>
<u>FUND BALANCE</u>	
Reserved for Telecommunications Right-of-Way Maintenance	3,418
Unreserved	
Undesignated	134,342
Total Fund Balance	<u>137,760</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 137,959</u>

The accompanying notes are an integral part of the financial statements.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Fund Balance for Governmental Funds	\$ 134,342
---	------------

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 852	
Land Improvements	5,500	
Buildings	35,780	
Infrastructure	8,000	
Equipment	5,000	
Accumulated Depreciation	(15,469)	39,663

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 174,005</u>
---------------------------------------	-------------------

The accompanying notes are an integral part of the financial statements.

CEDAR TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 36,383
Licenses and Permits	225
State Grants	36,177
Interest and Rents	1,689
Other Revenues	27
	<hr/>
Total Revenues	74,501
	<hr/>
<u>EXPENDITURES</u>	
Legislative	3,637
General Government	37,920
Public Safety	6,005
Community and Economic Development	2,190
Recreation and Cultural	386
Other Functions	6,234
	<hr/>
Total Expenditures	56,372
	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	18,129
	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	119,631
	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 137,760
	<hr/>

The accompanying notes are an integral part of the financial statements.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ 18,129
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(2,282)
Capital Outlay	<u>5,000</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 20,847</u></u>

The accompanying notes are an integral part of the financial statements.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 2,011
	<hr/>
<u>LIABILITIES</u>	
Due to General Fund	\$ 2,011
	<hr/>

The accompanying notes are an integral part of the financial statements.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Cedar Township is a general law township located in Osceola County which operates under the direction of an elected township board. Under the criteria established by generally accepted accounting principles, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Cedar Township reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally Cedar Township reports the following fund type:

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The investment policy adopted by the Township states that the treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and one-third of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of Cedar Township totaled \$17,939,637, on which ad valorem taxes levied consisted of 0.8381 mills for Cedar Township operating purposes and an additional extra voted levy of 0.9550 mills authorized through the 2008 tax year for Cedar Township operating purposes. The levies raised approximately \$32,157 for operating purposes.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land Improvements	20
Infrastructure	50
Vehicles	10
Equipment	5-10

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Cedar Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The Township currently has no long-term obligations.

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary Information*

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 28, 2005, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with expenditures in excess of appropriations were as follows:

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund			
General Government	\$ 37,122	\$	37,920

These expenditures in excess of appropriations were funded by greater than anticipated revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are all on deposit with Citizens Bank in LeRoy, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, \$24,666 of the government's bank balance of \$193,958 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

B. Receivables

Receivables as of year end for the government's individual major fund are as follows:

	<u>General</u>
Taxes	\$ 4,754
Due from Other Governments	<u>6,687</u>
	\$ <u>11,441</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the Township did not have any deferred revenue.

C. Capital Assets

Primary Government

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 852	\$ 0	\$ 0	\$ 852
Capital assets, being depreciated				
Buildings	35,780	0	0	35,780
Land Improvements	5,500	0	0	5,500
Infrastructure	8,000	0	0	8,000
Equipment	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>5,000</u>
Total capital assets, being depreciated	<u>49,280</u>	<u>5,000</u>	<u>0</u>	<u>54,280</u>

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	12,464	715	0	13,179
Land Improvements	390	275	0	665
Infrastructure	333	1,000	0	1,333
Equipment	0	292	0	292
Total accumulated depreciation	13,187	2,282	0	15,469
Total capital assets, being depreciated, net	36,093	2,718	0	38,811
Governmental activities capital assets, net	\$ 36,945	\$ 2,718	\$ 0	\$ 39,663

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 1,282
Public Works	1,000
	<u>\$ 2,282</u>

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

D. Long-Term Debt

At March 31, 2006, the Township was not obligated for any long-term debt.

E. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>Fund</u>	INTERFUND RECEIVABLES DUE FROM'S	INTERFUND PAYABLES DUE TO'S
General Fund	\$ 2,011	\$ 0
Fiduciary Fund		
Current Tax Collection Fund	0	2,011
	<u>\$ 2,011</u>	<u>\$ 2,011</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

F. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balance. This reserve is detailed in the following schedule:

Fund Balance/Net Assets

Reserved for Telecommunications Right-of-Way Maintenance	<u>\$ 3,418</u>
--	-----------------

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Fire Protection Contracts

The Township has a contract with Lincoln Township and paid \$4,000 for fire protection for the period June 1, 2005, to May 31, 2006.

The Township has a contract with Hersey Township and paid \$2,005 for fire protection for the period June 1, 2005 to May 31, 2006.

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 32,000	\$ 32,000	\$ 37,383
Licenses and Permits	0	0	225
State Grants	28,000	28,000	36,177
Interest and Rents	1,200	1,200	1,689
Other Revenues	900	900	27
Total Revenues	62,100	62,100	75,501
<u>EXPENDITURES</u>			
Legislative			
Township Board	4,450	4,550	3,637
General Government			
Supervisor	4,300	4,325	4,320
Elections	500	627	5,627
Assessor	13,500	13,500	11,801
Clerk	4,800	4,800	4,619
Board of Review	1,300	1,300	1,010
Treasurer	7,000	7,000	6,412
Building and Grounds	4,300	4,300	2,866
Cemetery	750	1,270	1,265
Public Safety	5,500	6,025	6,005
Public Works	8,000	8,000	0
Community and Economic Development	5,450	5,450	2,190
Recreation and Cultural	500	500	386
Other Functions	6,400	6,400	6,234
Contingency	500	500	0
Total Expenditures	67,250	68,547	56,372
Excess (Deficiency) of Revenues Over Expenditures	(5,150)	(6,447)	19,129
<u>FUND BALANCE</u> - Beginning of Year	119,005	119,005	118,631
<u>FUND BALANCE</u> - End of Year	\$ 113,855	\$ 112,558	\$ 137,760

CEDAR TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2006

	BALANCE			BALANCE
	4/1/2005	ADDITIONS	DEDUCTIONS	3/31/2006
<u>ASSETS</u>				
Cash	\$ 1,742	\$ 432,020	\$ 431,751	\$ 2,011
<u>LIABILITIES</u>				
Due to Other Funds	\$ 1,742	\$ 27,402	\$ 27,133	\$ 2,011
Due to Other Governmental Units	0	404,618	404,618	0
TOTAL LIABILITIES	\$ 1,742	\$ 432,020	\$ 431,751	\$ 2,011

CEDAR TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF 2005 TAX ROLL
MARCH 31, 2006

TAXES ASSESSED

County	\$	128,309	
Township		32,157	
Schools			
Pine River Area Schools		102,047	
Reed City Public Schools		99,547	
Ewart Public Schools		44,995	
Intermediate Schools			
Mecosta-Osceola		40,601	
Wexford-Missaukee		47,724	\$ 495,380

TAXES COLLECTED

County	107,767	
Township	27,403	
Schools		
Pine River Area Schools	89,674	
Reed City Public Schools	90,412	
Ewart Public Schools	38,118	
Intermediate Schools		
Mecosta-Osceola	35,286	
Wexford-Missaukee	39,666	428,326

TAXES RETURNED DELINQUENT

County	20,542	
Township	4,754	
Schools		
Pine River Area Schools	12,373	
Reed City Public Schools	9,135	
Ewart Public Schools	6,877	
Intermediate Schools		
Mecosta-Osceola	5,315	
Wexford-Missaukee	8,058	\$ 67,054

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

June 13, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To The Township Board
Cedar Township
Osceola County
Reed City, Michigan

During the course of our audit of the basic financial statements of Cedar Township for the year ended March 31, 2006, we noted the following:

Credit Card

In regards to the Township's credit card we recommend that as a method of strengthening internal control, a board member review each purchase on a monthly basis to see that it fits within the policy of using the card for office supplies and postage.

Budgeting

We found appropriation resolutions, budgets and budget amendments to be timely prepared, documented and amended as required. We feel the Township has complied with both the spirit and the intent of the budgeting process. The only instance of an expenditure exceeding appropriations was the acquisition of the voting machine valued at \$5,000 through a grant program administered by the State of Michigan. When we recorded the grant revenue and corresponding expense, the Elections activity's expenses were caused to exceed appropriations. We commend you on a job well done.

General Recordkeeping

The accounting records for the year ended March 31, 2006, were found to be in good order and in compliance with the State's uniform accounting system. We commend the Township clerk and treasurer for a job well done.

Internal Control

While we observed that bills are approved for payment by the Township board, we did not observe evidence of approval for payment on the bills themselves. We suggest that as a method of strengthening internal control the Township consider having a board member sign the bills approved for payment.

Telecommunications Right-of-Way Revenues

The state restricts the use of these monies to specific items, such as road construction and street lighting. As a result \$3,418 of the General Fund fund balance is restricted. We recommend that this money and all future Telecommunication revenues be used for road construction and road maintenance projects.

GASB 34

The Government Accounting Standards Board has issued Statement #34. We have assisted the Township with complying with the GASB 34 requirements of the State of Michigan and GASB. The financial statements are quite different as a result of this drastic change. We recommend the board review the new financial statements, and we are available to help explain the changes in detail, if needed.

We would like to thank the board for its continued confidence in our firm and to thank the Township clerk and treasurer for their cooperation, and assistance during the audit.

If you have any questions relative to the above comments and recommendations or other areas of your bi-annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

June 13, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board
Cedar Township
Osceola County
Reed City, Michigan

In planning and performing our audit of the basic financial statements of Cedar Township, Osceola County, Reed City, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.